

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 93-720-W - ORDER NO. 94-430^{ve}

MAY 20, 1994

IN RE: Application of Heater Utilities,)
 Inc. for Approval of Adjustments)
 in its Rates and Charges for Water)
 Service.)

ORDER APPROVING
RATES AND CHARGES

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of an Application of Heater Utilities, Inc. (the Company or Heater) for Approval of a New Schedule of Rates and Charges for its Customers in South Carolina. The Company's December 21, 1993, Application was filed pursuant to S.C. Code Ann. §58-5-240 (1976), as amended, and R.103-821 of the Commission's Rules of Practice and Procedure.

By letter dated January 11, 1994, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to notify directly all customers affected by the proposed rates and charges. The

Company filed affidavits, showing that it had complied with the instructions of the Executive Director.

Petitions to Intervene were filed on behalf of Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate), J. S. Lavisky, Soubhi S. Haddad, Woody Wagers, and Eddie Turner. Turner was subsequently allowed to withdraw his intervention, pursuant to Order No. 94-394.

The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The other parties likewise conducted their discovery in the rate filing of Heater. A night hearing was held on April 25, 1994, so that the Commission could hear the public's concerns about this matter.

A public evidentiary hearing relative to the matters asserted in the Company's Application was held on April 27, 1994, in the Hearing Room of the Commission at 111 Doctor's Circle, Columbia, South Carolina. Pursuant to S.C. Code Ann. §58-3-95 (Cum. Supp. 1990), a panel of three Commissioners composed of Commissioners Yonce, Rowell, and Arthur was designated to hear and rule on this matter. Darra W. Cothran, Esquire, represented the Company; Carl F. McIntosh, Esquire, represented the Consumer Advocate; the Intervenor, Lavisky and Wagers appeared pro se; and F. David Butler, General Counsel, represented the Commission Staff.

The Company presented the direct testimony of William E. Grantmyre, President of the Company; Freda Hilburn, Director of

Regulatory Accounting; and David Parcell, Vice President/Senior Economist of C. W. Amos of Virginia to explain the services being provided by the Company, the financial statements and accounting adjustments submitted, the reasons for the requested rates, and the cost of capital requirements. The Company submitted rebuttal testimony from Grantmyre and Hilburn, as well as Jerry H. Tweed, Director of Environmental and Regulatory Affairs. The Consumer Advocate presented the testimony of Philip E. Miller of J. W. Wilson and Associates, who analyzed the Company's Application and revenue requirements. Soubhi S. Haddad did not appear at the hearing. The Commission Staff presented the testimony of Charles A. Creech, Chief, Water and Wastewater Department, and I. Curtis Price, Public Utilities Accountant.

FINDINGS OF FACT

1. The Company is a wholly-owned subsidiary of Topeka Group, Inc.¹ The Company is a water utility operating in the State of South Carolina and is subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10 (1976) et seq. Application of Company; Grantmyre testimony.

2. The Company provides water service to approximately 3,080 customers in Richland, Lexington, Sumter, Fairfield, and Saluda Counties, South Carolina. Application of Company; Hearing Exhibit No. 8, Water and Wastewater Department, Part E.

3. The Company's present rates and charges were approved by

1. The Topeka Group, Inc. is a wholly owned subsidiary of Minnesota Power and Light Company.

Order No. 91-881, dated October 14, 1991, in Docket No. 91-096-W. Hearing Exhibit No. 8; files of the Commission.

4. At present, the Company charges a basic facility charge of \$8.00 per month for meter sizes less than one inch² and a commodity charge of \$3.32 per 1,000 gallons used. The Company also charges a tap fee of \$500.00.³ The Company does not propose to change its tap fee. The Company proposes to change its water reconnection fee of \$30.00 to \$35.00 and increase its new customer account charge from \$22.00 to \$25.00. The Company proposes to increase its basic residential water rate to \$11.50 per month for meter sizes less than one inch (most residential units have meters less than 1 inch), plus a commodity charge of \$3.62 per 1,000 gallons. Based on the average consumption of 6,322 gallons, the water increase amounts to an additional \$5.40/month or an increase of 18.63%. Application of Company; Hearing Exhibit No. 8, Water and Wastewater Department, Parts A, B, and C.

5. The Company asserts this requested rate increase is required because the Company has experienced substantial increases in operating expenses such as property taxes, insurance, rents, purchased power, materials and supplies, depreciation expense resulting from plant upgrades and modifications, and increasing field service operations due to the requirements of the Safe

2. This charge increases as the meter size increases to a 2-inch meter.

3. Except as otherwise prohibited by contract approved by the Commission.

Drinking Water Act. The Company has experienced for the test year ending September 30, 1993, after accounting and pro forma adjustments a loss of \$37,387, after interest expense. The operating margin after interest expense under current rates after accounting and pro forma adjustments was (3.28%), according to the Company. The Company asserts that the rate increase is necessary in order for it to earn a fair rate of return on its investment, which is necessary to maintain the financial integrity of the Company. The rate increase will enable the Company to maintain the quality of service to the customers and maintain customer satisfaction. Grantmyre testimony; Application of Company.

6. The Company proposes that the appropriate test period to consider its requested increase is the twelve-month period ending September 30, 1993. Hilburn testimony; Application of Company. The Staff concurred in using the same test year for its accounting and pro forma adjustments. Price testimony, Hearing Exhibit No. 7.

7. Under its presently approved rates, the Company states its operating margin after interest and after accounting and pro forma adjustments is (3.28%). Application of Company. The Company seeks an increase in its rates and charges for water and sewer service which would result in operating margin of 7.75%. Application of Company.

8. Under the Company's presently approved rates, the Company states that its operating revenues for the test year, after accounting and pro forma adjustments, are \$1,141,260. The Company seeks an increase in its rates and charges for water and sewer

service in a manner which would increase its operating revenues by \$209,378. Application of Company, Exhibit C.

9. Under the Company's presently approved rates, the Staff found that the Company's per book operating revenues for the test year were \$1,141,260, after accounting and pro forma adjustments. The Staff calculated the proposed increase to be in the amount of \$209,378.

10. The Company asserts that under its presently approved rates, its total operating expenses for the test year, after accounting and pro forma adjustments are \$1,047,622. Application of Company, Exhibit C. Staff concluded that the Company's operating expenses for the test year, after accounting and pro forma adjustments, are \$1,027,374. Staff arrived at this figure after making its adjustments to the Company's expenses. Based on the Company's concurrence with a number of Staff's adjustments, the Commission need only address those adjustments where the Company, the Staff and the Consumer Advocate disagree.

A. ELECTRIC POWER USAGE

Staff proposes to increase expected electric power usage based on data made available after the Company filed its Application. The Staff proposes an adjustment to operation and maintenance expenses of \$2,618, whereas the Company proposes an adjustment of \$1,168. The Commission adopts Staff's adjustment, since it is based on data made available after the Company filed its Application.

B. RATE CASE EXPENSES

Consumer Advocate witness Philip E. Miller testified that a portion of the rate case expenses proposed for inclusion by the Company were actually included in the rate case costs included in the amortization authorized by the Commission in the Company's last rate case. Additionally, Mr. Miller testified that the costs of the current proceeding were based upon estimated amounts rather than actual ones.

The Company agrees with Mr. Miller's positions concerning this matter. Company witness Freda Hilburn testified that she does not object to the Consumer Advocate's methodology regarding the rate case expense related to the two previous rate case proceedings. Additionally, Ms. Hilburn presented the Commission with the actual expenses incurred through April 25, 1994. Rebuttal testimony of Freda Hilburn, at 11-13.

The Company also provided the Commission with a revised rate case expense which incorporated the recommendation of the Consumer Advocate, and at the same time updated them to incorporate the latest actual amounts. Hilburn Rebuttal, Exhibit 1.

Although the Consumer Advocate proposes to remove expenses for the costs of rate of return witness David Parcell, the Commission believes that these are legitimate costs incurred by the Company to further its point of view on rate of return issues. Although the Commission has not adopted rate of return methodology in this case, we think that the Company is entitled to present its point of view on the issue. We therefore adopt the Company's revised rate case

expense figure of \$16,997.

C. INTEREST ON CUSTOMER DEPOSITS

The Company and Staff proposed to annualize interest on Company deposits. Staff also proposes to reclassify this interest from operation and maintenance expense to a separate line item. On Exhibit A, the Staff proposes an adjustment of (\$6,058). The Company proposes an adjustment of (\$2,028). The Commission adopts Staff's adjustment.

D. AMORTIZATION OF FINANCE CHARGES

The Company proposes to annualize amortization of finance charges. The Staff proposes to reclassify these charges as interest expense. The Company proposes an adjustment of \$390. The Staff proposes an adjustment of (\$178). The Commission adopts Staff's adjustment.

E. DEPRECIATION EXPENSE

The Company and Staff both proposed to annualize depreciation and amortization for the test year. The Staff proposes an adjustment of \$22,603. The Company proposes an adjustment of \$50,710. The difference between Company and Staff's adjustment in this category is \$28,107 in replacement cost allowances claimed by the Company in its Application. Replacement cost allowances computed by the Company based on 76.34% of the depreciation figured on donated plant of \$1,573,619. The total claimed depreciation is \$36,816, and the \$28,107 represents that portion of donated plant depreciation that would be applicable to South Carolina operations. The Company has no cost in the donated plant.

According to Staff witness Price, depreciation is an accounting mechanism by which the costs of assets known to have a useful life beyond the accounting period are converted into expenses allocated over successive accounting periods. Thus, an asset which cost \$10,000 and is expected to last 10 years is converted to expenses at the rate of \$1,000 per year on a straight-line basis. At the end of the property's useful life, except for scrap value, the item should have depreciated to zero. In other words, according to witness Price, it is the purpose of depreciation to provide sufficient revenue to keep the original investment intact. It is not the purpose of depreciation to provide an allowance for the replacement of property which the Company was given. In such instances, the Company has no costs, and therefore, no investment to be kept intact. According to Price, granting the Company a replacement allowance on property that was given will require ratepayers to provide the Company a return on zero cost investments. Consumer Advocate witness Philip Miller supports this position. Upon examination, despite its holding in previous Heater rates cases, the Commission agrees with Staff witness Price. It is inappropriate from a ratemaking standpoint to grant Heater a replacement allowance on property it was given. The principle of depreciation clearly does not allow this to be done. Therefore, the Commission adopts Staff's adjustment.

F. CUSTOMER DEPOSITS

Staff proposes to reclassify interest on customer deposits.

Therefore, Staff proposes an adjustment of \$4,030. The Company has not proposed an adjustment in this category. The Commission believes that reclassification is appropriate, and therefore, grants Staff's adjustment.

G. TAXES

The Company and Staff propose to annualize taxes other than income. The Company proposes an adjustment of \$1,170, while Staff proposes an adjustment of \$1,098. Staff's figure differs from the Company's in that Staff's corrected a \$72 error in the computation of the taxes. The Commission adopts Staff's adjustment.

The Company also proposes to eliminate income taxes based on the Company's calculation of zero net taxable income. The Staff proposes to calculate the adjusted income tax liability based upon a net taxable income of \$48,037, and a composite income tax rate of 38.25%. The net taxable income is based on gross income of \$1,141,260 and deductions of \$1,093,223. The deductions include synchronized interest costs of \$83,564 as calculated in the Staff's Exhibit A-6, Hearing Exhibit 7. The composite income tax rate is based on 5% state and 35% federal income tax rates, as would be paid by the parent company. The Company proposes an adjustment of (\$13,748), while Staff proposes an adjustment of \$4,626. The Commission adopts Staff's adjustment as the more reasonable method.

H. INTEREST EXPENSE

Staff proposes to remove interest expense from operating income. Staff proposes to synchronize interest expense with that portion of the rate base supported by a long-term debt. Staff

proposes synchronization of interest expense to insure that the ratepayer is charged only for that portion of interest costs applicable to the support of the rate base. The Company proposes an adjustment of \$6,713, while Staff proposes an adjustment of (\$124,312).

The Company has used the capital structure of Heater Utilities, Inc. to determine the portion of interest expense that should be included in operating expenses. Yet, in the Company's last two rate proceedings, this Commission determined that it was appropriate to use the combined, regulated capital structure of Minnesota Power and Light Company/Topeka Group, Inc. No new evidence demonstrating why the Commission should reject its previous decisions on this matter have been presented in this proceeding. Both Staff and the Consumer Advocate have testified in support of the Commission's previous position on this issue. Thus, the Commission reaffirms its previous position on capital structure. Also, because of the above-stated reasoning, the Commission adopts Staff's adjustment.

I. CASH WORKING CAPITAL

Staff proposes to adjust cash working capital allowance to per book numbers as shown in Accounting Exhibit A-5, Hearing Exhibit 7. The Company does not propose an adjustment in this category. Staff proposes an adjustment of \$1,419. The Consumer Advocate agrees with Staff. The Commission adopts Staff's adjustment.

J. ACCUMULATED DEFERRED INCOME TAXES

Staff proposes to correct the accumulated deferred income

taxes to the actual per book figure at September 30, 1993, and therefore, proposes an adjustment of \$122, whereas the Company makes no proposal for an adjustment. The Commission adopts Staff's adjustment.

K. UNCLAIMED FUNDS

Staff proposes to reduce rate base by the Company's liability to replace unclaimed funds, and therefore, proposes an adjustment of (\$2,335). The Company proposes no adjustment in this category. The Commission agrees with Staff's reasoning and adopts Staff's adjustment in this category, since rate base should be reduced by such liability

L. O & M EXPENSES AND SALARIES AND WAGES

According to Consumer Advocate witness Philip Miller, the Company's operation and maintenance (O&M) expenses have increased by over 10% in the eighteen months between the test periods of this case and the Company's last rate case, and general expenses have decreased by approximately 4%. Miller concludes that the combined amounts have increased by approximately 7% during this eighteen month period. Miller states that the increase in total expenses is above the inflation rate for the time period. Miller goes on to challenge the Company's allocation methodologies, among other things.

In the Order in the Company's last rate case, this Commission ordered Heater to justify its level of salaries and wages at the time of its next rate case. Heater filed this justification with its present case. Upon examination of this document, and upon

consideration of the testimony and exhibits of Company witnesses Grantmyre and Hilburn, we believe that Heater has justified the levels of its O&M expenses and salaries and wages. We do not find the general assertion by the Consumer Advocate that the levels of these expenses are "excessive" to be persuasive. Further, we once again deny the Consumer Advocate's request for a management audit of the total Heater system.

M. OTHER ADJUSTMENTS

The Commission concludes that since there were no objections to the other adjustments proposed by the Commission Staff, that these adjustments, as supported by the record, are appropriate for ratemaking purposes, and are hereby adopted.

11. The Company's records reflect that after accounting and pro forma adjustments to its operating revenues and expenses, its net operating income is (\$37,387). Application of Company, Exhibit C. The Staff calculated the Company's net operating income, after accounting and pro forma adjustments to be \$113,886, and its net income for return to be \$114,133.

12. The Company has applied for rates which will result in a return on rate base of 9.66%, Application of Company, Exhibit J. Heater requested the Commission to set its rates and charges based upon the return on rate base methodology. Application of Company, Page 2; Grantmyre testimony; Parcell testimony. The applied-for rates would result in an operating margin after interest of 7.75%, according to the Company. Application of Company, Exhibit K.

13. The Commission Staff calculated the rate of return on

rate base to be 9.90% and the operating margin, after interest, to be 11.70% under the proposed rates and assuming Staff's adjustments. Hearing Exhibit No. 7.

CONCLUSIONS OF LAW

1. The Company is a water utility providing water service in its service area in South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10 et seq. (1976), as amended.

2. A fundamental principle of the ratemaking process is the establishment of an historical test year with the basis for calculating a utility's rate base and, consequently, the validity of the utility's requested rate increase. While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expense, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. See, Parker v. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E.2d 290 (1984), citing City of Pittsburgh v. Pennsylvania Public Utility Commission, 187 P.A. Super. 341, 144 A.2d 648 (1958); Southern Bell v. The Public Service Commission, 270 S.C. 590, 244 S.E.2d 278 (1978).

3. The Company chose the test year ending September 30, 1993. The Commission Staff used the same test year in calculating its adjustments. The Commission is of the opinion that the test year ending September 30, 1993, is appropriate for the purposes of

this rate request based on the information available to the Commission.

4. The Commission concludes that the Staff's adjustments to the Company's operating revenues are appropriate. The Staff's adjustments recognize the annual level of revenues based on a billing analysis performed by the Company and audited by the Staff, the adjustment of late fees, and the recomputation of reconnection fees. Accordingly, the Commission finds that the appropriate level of revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments is \$1,141,260.

5. The Commission also concludes that the Staff's adjustments to the Company's operating expenses are appropriate with one exception. The legal principles and reasoning behind the Commission's findings are explained in the Findings of Fact section of this Order.

6. Accordingly, the Commission concludes that the Company's appropriate operating expenses for the test year, after pro forma and accounting adjustments is \$1,027,374.

7. The Company's appropriate total income for return for the test year, after accounting and pro forma adjustments is \$114,133. Based upon the above determinations concerning the accounting and pro forma adjustments to the Company's revenues and expenses, the Commission concludes that the total income for return is as follows:

TABLE A
TOTAL INCOME FOR RETURN

| | |
|-------------------------|-------------------|
| Operating Revenues | \$1,141,260 |
| Operating Expenses | <u>1,027,374</u> |
| Net Operating Income | \$ 113,886 |
| Customer Growth | <u>247</u> |
| Total Income for Return | <u>\$ 114,133</u> |

8. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and...that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

9. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rates of a public utility. For a water utility whose rate base has been substantially reduced by customer donations, tap fees,

contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the net operating income for return by the total operating revenues of the utility. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

The Company proposed that a rate of return methodology be used as a ratemaking determinant. Witness Parcell testified to the appropriateness of the use of a rate of return methodology and the appropriate cost of capital for the Company. The Commission has considered the issue of applying the operating margin or rate of return methodologies for water utilities on a case-by-case basis. Each utility is unique and requires a separate review and analysis. However, in most cases involving water utilities, the Commission has employed an operating margin approach. The operating margin was used in the last case for Heater. The Commission concludes that no justification for modifying its approach has been adequately put forth in this case. There is no evidence that either the Company's financial condition or its ability to provide adequate service is being hampered by an operating margin approach. The Commission concludes that use of the operating margin is appropriate in this case, but will maintain the option to consider

the rate of return on rate base approach in the Company's future rate filings.

Based on the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules, the Company's operating expenses for the test year after accounting and pro forma adjustments, and customer growth, the Company's present operating margin is as follows:

TABLE B
OPERATING MARGIN

BEFORE RATE INCREASE

| | |
|-----------------------------------|-------------------|
| Operating Revenues | \$1,141,260 |
| Operating Expenses | <u>1,027,374</u> |
| Net Operating Income | \$ 113,886 |
| Customer Growth | 247 |
| Total Income for Return | <u>\$ 114,133</u> |
| Operating Margin (After Interest) | <u>2.68%</u> |

10. The Commission is mindful of the standards delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirements of the Company but also the proposed price for the water service, the quality of the water service, and the effect of the proposed rates upon the consumer. See, Seabrook Island Property Owners Ass. v. S.C. Public Service Commission, Op. No. 23351 (Filed Feb. 25, 1991); S.C. Code Ann. §58-5-290 (1976).

11. The three fundamental criteria of a sound rate structure have been characterized as follows:

... (a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates
(1961), p. 292.

12. Based on the considerations enunciated in Bluefield and Seabrook Island and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn a 8.04% operating margin. In order to have a reasonable opportunity to earn a 8.04% operating margin, the Company will need to produce \$1,257,425 in annual operating revenues.

TABLE C
OPERATING MARGIN

AFTER RATE INCREASE

| | |
|-----------------------------------|-------------------|
| Operating Revenues | \$1,257,425 |
| Operating Expenses | <u>1,073,214</u> |
| Net Operating Income | 184,211 |
| Customer Growth | 400 |
| Total Income for Return | <u>\$ 184,610</u> |
| Operating Margin (After Interest) | <u>8.04%</u> |

13. In fashioning rates to give the Company the required

amount of operating revenues so that it will have the opportunity to achieve a 8.04% operating margin, the Commission has carefully considered the concerns of the Company's customers. The Company is encouraged to continue to improve the quality of service it provides its customers. The Commission recognizes that the proposed increase for water customers amounts to a 18.63% increase in the average customer's bill. The rates designed herein consider the quality of the service provided by the Company to its customers and the need for the continuance of the provision of adequate service, as well as the impact of the increase on those customers receiving service and the need for conservation of water resources.

14. The Commission recognizes the increase in operating expenses and the additional DHEC requirements. Further, the Commission recognizes the other increased expenses experienced by the Company and that under the current rates, the Company is experiencing a low operating margin.

15. The Commission concludes that while an increase in rates is necessary, the proposed increase is unreasonable and inappropriate. Accordingly, the Commission will design rates which will increase the base facility charge for meters less than one inch for water service to \$9.00 per month. For one inch meters, the basic facility monthly charge shall be \$25.30, for 1.5 inch meters, \$50.63, and for 2 inch meters, \$81.00. Also, the Company's requested water commodity charge should be increased to \$3.62 per 1,000 gallons. The Commission agrees with the testimony of Consumer Advocate witness Miller in his assertion that any increase

in rates should be applied uniformly, and believes that the Commission's schedule of rates as stated herein applies that principle. Additionally, it should be noted that, rather than eliminating the investment, revenue, and expenses associated with the Dutchman Shores and Oak Ridge Hunt Club subdivisions, Staff has imputed revenue utilizing the herein approved rates. This procedure provides a matching of revenue, expenses and investment, and eliminates subsidies between customers. The Commission agrees with Staff's computation.

16. The Company's has proposed reconnection and new customer account charges of \$35.00 and \$25.00, respectively. The Commission finds that the proposed rates are reasonable and that the proposed increases should be granted. The Commission examined the evidence in this case and believes that the Company has shown good evidence that the cost of making a reconnection exceeds \$35. Additionally, the Commission believes that the Company has shown evidence that a customer new account charge of \$25 is not unreasonable, given the cost of maintaining customer accounts. The testimony of Company witness Grantmyre is credible, and justifies these increases.

17. The Company did not propose a change to its previously approved \$500 tap fee. The Commission makes no finding in that regard.

18. Based on the above considerations and reasoning, the Commission hereby approves the rates and charges as stated in this Order and attached hereto as Appendix A as being just and reasonable. The rates and charges approved are designed in such a

manner in which to produce and distribute the necessary revenues to provide the Company the opportunity to earn the approved operating margin.

Given the public hearing in this matter, the Commission notes continuing difficulties with the water supply in the Dutchman Shores and Oak Ridge Hunt Club Subdivisions. There was considerable testimony that solutions were being sought to the problems in these subdivisions in the form of a interconnection with a bulk water supplier. The Commission therefore holds that the new rates shall be held in abeyance for the Dutchman Shores and Oak Ridge Hunt Club Subdivisions until it is certified to this Commission that interconnection with a bulk water supplier has been made. Until such time as this is accomplished, rates to the Dutchman Shores and Oak Ridge Hunt Club shall remain at their present levels. See, Appendix A.

19. Accordingly, it is ordered that the rates and charges attached on Appendix A are approved for service rendered on or after the date of this Order. The rate schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976), as amended.

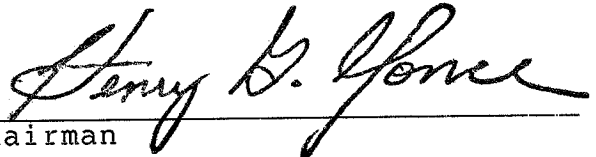
20. It is ordered that should the approved schedule not be placed into effect before three (3) months after the effective date of this Order, then the approved schedule shall not be charged without written permission of the Commission.

21. It is further ordered that the Company maintain its books and records for water and sewer operations in accordance with the

NARUC Uniform System of Accounts for Class A and B water utilities,
as adopted by this Commission.

22. That this Order shall remain in full force and effect
until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)

APPENDIX A

HEATER UTILITIES INC.
104 CORPORATE BLVD.
SUITE 411
WEST COLUMBIA, S. C. 29169
796-2870

FILED PURSUANT TO DOCKET NO. 93-720-W - ORDER NO. 94-430
EFFECTIVE DATE: MAY 20, 1994

SCHEDULE OF WATER RATES AND CHARGES

a. Base Facility Charge For Zero Consumption --

| <u>Meter Size</u> | <u>Base Monthly Charge</u> |
|-------------------|----------------------------|
| <1.0 | \$ 9.00 |
| 1.0 | \$ 25.30 |
| 1.5 | \$ 50.63 |
| 2.0 | \$ 81.00 |

b. Commodity Charge - \$ 3.62 per 1,000 gal.

Water Reconnection Charge - \$ 35.00

New Customer Account Charge - \$ 25.00

Tap Fee - \$500.00*

The rates below will remain as approved by Commission Order No. 91-881 dated October 14, 1991, in Docket No. 91-096-W for the Dutchman Shores and Oak Ridge Hunt Club subdivisions until it is certified to this Commission of an interconnect with a bulk water supplier.

a. Base Facility Charge For Zero Consumption -

| <u>Meter Size</u> | <u>Base Monthly Charge</u> |
|-------------------|----------------------------|
| <1.0 | \$ 8.00 |
| 1.0 | \$ 22.50 |
| 1.5 | \$ 45.00 |
| 2.0 | \$ 72.00 |

b. Commodity Charge - \$ 3.32 per 1,000 gal.

Water Reconnection Charge - \$ 30.00

New Customer Account Charge - \$ 22.00

Tap Fee - \$500.00*

*Except as otherwise prohibited by contract approved by the South Carolina Public Service Commission.